

# **CALIFORNIA MILITARY DEPARTMENT**

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## **AUDIT REPORT YOUTH PROGRAMS - OAKLAND MILITARY INSTITUTE**

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**Audit Period  
July 1, 2005 to June 30, 2007  
May 2008**

**OFFICE OF THE ADJUTANT GENERAL  
MILITARY DEPARTMENT INTERNAL REVIEW OFFICE**

**California Military Department  
Youth Programs - Oakland Military Institute  
Audit Period: July 1, 2005 to June 30, 2007**

**Office of the Adjutant General  
Military Department Internal Review Office  
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**Report No. IC 07-02**

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**CALIFORNIA MILITARY DEPARTMENT  
Audit of Youth Programs – Oakland Military Institute  
July 1, 2005 to June 30, 2007**

**Executive Summary**



## ***EXECUTIVE SUMMARY***

This report contains the results of the Military Department Internal Review Office's (MDIRO) audit of the Youth Programs Directorate's (YPD) Oakland Military Institute (OMI) program for the period July 1, 2005, through June 30, 2007.

In 1999, the Mayor of Oakland (Mayor) proposed to open a military academy as a charter school in Oakland, California through a multi-phased process (grades 7<sup>th</sup> through 12<sup>th</sup>). On November 16, 2000, the California Military Department (CMD) and OMI began working together under a Letter of Intent or Memorandum of Understanding (MOU). The original intent of this MOU covered specific elements such as:

- Outlining OMI's organizational structure, purpose, goals and operations;
- Identifying the funding sources, to include education funds appropriated by the State of California via the Average Daily Attendance, donations and grants from private individuals and corporations, and CMD funding to support OMI's operations for purposes specified in the Budget Change Proposal (BCP) or amendments;
- Set up short-term implementation goals; and
- Long-term principles for OMI's operation.

The MDIRO reviewed state laws and regulations governing charter schools and evaluated the financial operational relationship between the CMD's YPD and OMI, with a special emphasis in areas MDIRO considered high risk. Specifically, the MDIRO's audit objectives are to analyze the CMD's state funding used for OMI's personnel and operating expenses and determine whether:

- The duties and responsibilities of the CMD and OMI were clearly defined.
- Financial operations were as specified in the annual BCP, as approved by the Legislature, and conducted in accordance with policies and procedures established in the State Administrative Manual.
- Transactions were executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports.
- Assets were safeguarded against loss from unauthorized use or disposition.

## **SUMMARY OF FINDINGS AND RECOMMENDATIONS**

The YPD's management of its internal controls and fiscal activities governing OMI's operations lacked effective and efficient oversight as well as exceeded its authority in properly administering the CMD's funding of the school's operations. Details of the findings are located on pages 13-25 of this report.

***Finding 1:*** The CMD reimbursed OMI over \$1 million for improper civilian personnel costs and operating expenditures. (*Pages 13 – 21*)

- A. The CMD's YPD budget reimbursed OMI \$738,785.32 for the following civilian personnel hired in lieu of State Active Duty (SAD):

- Three character education teachers
- One character education director
- California Cadet Corp Instructors
- One Accounting Clerk
- One IT Coordinator
- One Assistant Athletic Director (50% salary reimbursed)
- One independent contractor serving as the Logistics Coordinator

B. The CMD's YPD budget reimbursed OMI or paid through direct purchasing \$375,349.20. However, after a review of the YPD's response the MDIRO allowed 28 percent of certain expense categories resulting in an adjusted amount of \$300,537.13. The MDIRO found unallowable costs in the following categories:

- Facilities Cleaning and Supplies
- Security System
- Sports Equipment and related costs
- Bus Rental
- Insurance Premiums
- Travel
- Legal Services
- Independent Auditor's Report
- School District Administration Fees
- Unreimbursed School Meals
- Information Technology (IT) Maintenance

**Recommendations:**

- The CMD should recoup \$738,785.32 from the YPD's OMI budget for the unallowable civilian personnel costs claimed and reimbursed.
- The CMD's YPD should immediately amend the current contract between the CMD and OMI regarding reimbursement of personnel services to meet Government Code 19130(b) requirements for "emergency" services.
- The CMD should recoup \$300,537.13 from the YPD's OMI budget for the unallowable operating expenses claimed and reimbursed.
- The CMD's YPD and CMD executive staff should review BCP language regarding the intent and nature of the operating expense categories and modify the budget line item names to reflect realistic budget categories and amounts. Provide a narrower definition of those costs and consider limitations, exclusions or other restrictions as necessary to clearly define the CMD's obligations. Include a provision in the BCP language that the



funding is not only limited to availability but subject to CMD approval as necessary.

- Immediately develop and implement a written cost allocation agreement between the CMD and OMI for the current fiscal year operations documenting the YPD's realistic and equitable share of OMI's operating expenses using the most current approved BCP.
- The YPD and CMD executive staff should review and revise the current reimbursement contract between the CMD and OMI to ensure CMD pays its equitable share of operating expenditures as determined in the above recommendation.
- The YPD should review and report on the insurance coverage necessary among all of the insurance policies in effect regarding OMI, and determine whether the CMD is paying for duplicate coverage by reimbursing OMI for liability insurance premiums.

**Finding 2:** There is no current MOU between the CMD and OMI. (Page 22)

**Recommendation:** To ensure that CMD and OMI have a complete understanding and agreement regarding the roles and functions of the military presence at the academy, an MOU should be finalized and implemented immediately.

**Finding 3:** The YPD approved payment for OMI reimbursement billings without reviewing for mathematical accuracy and supporting documentation. (Page 23)

**Recommendation:** The YPD should immediately implement internal controls to review all reimbursement documents for mathematical accuracy as well as support documentation (invoices, statements, and invoices) prior to approving payment. Additionally, the YPD should develop a policies and procedures manual for reviewing and paying reimbursement contract invoices. The manual should include the process of tracing claimed expenditures to supporting invoices, cancelled checks and bank statements.

**Finding 4:** The CMD may have made duplicate payments to a CaCC member through the contract reimbursement process, during which time this instructor received separate pay for CaCC hours performed. (Page 24)

**Recommendation:** The YPD should investigate the possible duplicate payment to the CaCC member and advise the CMD management when and how the issue is resolved.

**Finding 5:** The YPD is not exercising sufficient controls over computer equipment purchased with state funds. (Page 25)

**Recommendation:** The YPD should implement procedures to ensure that computer equipment is properly stored, disposed of, and access restricted to military cadre program personnel and authorized users.



**CALIFORNIA MILITARY DEPARTMENT  
Audit of Youth Programs – Oakland Military Institute  
July 1, 2005 to June 30, 2007**

**Background**

## **BACKGROUND**

### ***History***

In 1999, the Mayor proposed to open a military academy through a multi-phased process (7<sup>th</sup> through 12<sup>th</sup> grades) as a charter school in Oakland, California. The vision was to provide Oakland city students and parents the option of choosing a college preparatory education using the disciplined and structured environment of a military institution. Initially, the Mayor's proposal was denied by the Oakland Unified School District (OUSD) and the Alameda County Office of Education. On appeal, the Mayor received approval from the State Board of Education, with the understanding that OMI would obtain oversight from a local educational agency, which would be the OUSD.

The Mayor entered into an MOU with the CMD's Office of The Adjutant General establishing a partnership to provide the desired educational environment, thus creating the OMI. In the MOU, the partners agreed to create a non-profit corporation that would become the legal entity to operate the school. The OMI became a California Non-Profit Public Benefit Corporation in 2000, and is governed by a Board of Directors, subject to the established bylaws and articles of incorporation. The OMI's academic curriculum is provided by civilian teachers, and the California National Guard (CNG) provides military training and promotes classroom discipline. The goal is to graduate students capable of meeting the academic requirements of any university in addition to building leadership qualities, instilling self-confidence, and promoting team-work among their peers.

After becoming a charter school, OMI received state education funds via the general purpose funding for charter schools. The OMI also received funding through the CMD via the CNG Youth Programs State of California BCP process to "establish the Oakland Military Institute". The BCP authorized 17 military SAD staff and operating expenses with a total budget request of \$1.3 million. The initial proposal was to establish OMI with 162 students in 2000-01 and expand incrementally by 162 students each year to 972 students in the 7<sup>th</sup> through 12<sup>th</sup> grades by 2006/07. As a result of the initial denial of the charter petition and other delays, the OMI start date was postponed to the fall of 2001. The Legislature reappropriated the same \$1.3 million allocated in fiscal year (FY) 2000/01 for the 2001/02 school year under Chapter 127. However, Chapter 127 required that OMI provide a dollar for dollar match for the \$1.3 million. In order to meet this state match requirement, the Department of Defense awarded OMI a \$2.0 million federal grant.

The academy serves a valuable purpose providing quality college preparatory education, serving the Oakland community and its young people. The OMI student enrollment has increased over the last seven years, and graduated its first senior class in June 2007.

### ***Memorandum of Understanding***

The original intent of the MOU, executed on November 16, 2000, covered specific elements such as:

- Outlining OMI's organizational structure, purpose, goals and operations;



- Identifying the funding sources, to include education funds appropriated by the State of California via the Average Daily Attendance, donations and grants from private individuals and corporations, and CMD funding to support OMI's operations for purposes specified in the Budget Change Proposal or amendments;
- Set up short-term implementation goals; and
- Long-term principles for OMI's operation.

This MOU laid the groundwork for opening a public charter school in the OUSD as a military academy. However, the MOU has not been renewed or updated since November 2000.

### ***OMI Charter***

After receiving approval from the California State Board of Education, OMI developed a charter in compliance with the Education Code Section 47605. The charter was subsequently renewed by the OUSD in 2004, and is valid for the next five years.

The charter identifies the school's governance structure as a California Non-profit Benefit Corporation with an established Board of Directors and appropriate by-laws, employee qualifications, admission requirements, student discipline policy, legal requirements, and financial and programmatic audit processes. According to the charter, OMI shall hire instructional and support staff, and have an annual audit of the school's financial affairs, attendance and enrollment. The charter addresses several areas of authority and responsibility in educational requirements and expectations for the cadet/student. The OMI is also responsible for developing the school's discipline policy and, and together with the Board of Directors, may take appropriate legal action as necessary to maintain order in the school.

The OMI has also developed tools to disseminate information about their charter school. There is an active website to inform the public of OMI's purpose, goals and criteria for admission to the academy together with the application forms. The OMI has recently updated its Parent/Cadet Handbook, which provides guidance and instructional information to the cadets and their families about OMI's expectations and standards.

### ***OMI Board of Directors***

As a California Non-Profit Public Benefit Corporation, OMI's activities and business affairs are managed by or under the direction of a Board of Directors (Board), in which the CMD is represented by the YPD manager, who attends all board meetings. The Board operates guides, directs, and promotes the OMI. The Board may delegate management to an individual, who is currently the Superintendent of OMI, but retains the ultimate authority to conduct the corporate activities of the academy.

To help assess charter school compliance with state and federal rules and regulations and fulfill its statutory responsibility, the Board performs the following activities:

- Monitors the school to help ensure it complies with federal and state laws, and charter school requirements;



- Establishes and approves major educational and operational policies;
- Approves all major contracts, the school budget, and fiscal affairs;
- Evaluates the top administrative staff;
- Hires and terminates (1) the principal, who oversees OMI's academic curriculum and personnel, and (2) the commandant, who is in charge of the skill classes and the military personnel;
- Receives complaints from parents, students, charter school faculty, and the public and, depending on the nature of the complaint, investigates and resolves the matter or refers the matter to the proper agency, such as the county attorney or Attorney General; and
- Provides consumer information to the public.

### ***State Budget Funding of OMI Operations***

Incorporated within the initial MOU, the school charter, and the CMD's initial BCP emerges a common principle to support and fund OMI as an institution focused on providing a "disciplined, educational environment with a military organizational framework using CNG military personnel as, not only mentors for the cadets, but instructors of military science courses". Initially, the military personnel (referred to as "military cadre" or "cadre") consisted of a commandant officer with the rank of Major (pay grade 04), a Captain (pay grade 03), and several non-commissioned officers (NCOs) in various pay grade levels. The military cadre has been responsible for teaching, training, motivating, and mentoring OMI's cadet students. The cadre provides instruction in military leadership, team building, Code of Honor, peer communication, physical fitness, and drills and ceremonies. They also monitor and develop student discipline before, during, and after school hours.

Up until FY 2005/06, military instructors at OMI were hired as active or retired CNG members or active members in the State Military Reserve, who are eligible to apply for SAD positions. From FY 2001/02 through FY 2004/05, these members filled the positions as cadre supervisors, platoon leaders, fiscal and logistics NCOs, operations NCOs, or military instructors. In addition, there were, and still are, mandatory educational qualifications for these SAD positions, which are outlined below:

- ***Commandant*** – Successful completion of civilian and military education requirements commensurate with the grade of the applicant is required, degree in counseling, psychology or related fields is desirable, training or education in youth counseling desirable.
- ***Operations*** – Successful completion of appropriate level of NCO military education.
- ***Senior Military Instructor*** – High school graduate or higher, possess working experience performing the duties of a military instructor.
- ***Military Instructor*** – Completion of the appropriate level of NCO military education, training or education in human relations, equal opportunity, or human awareness is desirable.
- ***Logistics*** – Successful completion of high school or equivalent.

Since OMI opened in July 2001, the YPD has submitted BCPs each year to increase SAD military cadre, together with the commensurate operating expenses, to meet the incremental increase in OMI's enrollment and grade levels. Each of these state funded



cadre positions has been through a review process for classification under SAD employment rules.

As illustrated below in Table 1, the Legislature authorized 17 positions in FY 2001/02. Between FY 2002/03 and FY 2004/05, the number of authorized positions increased to 30.0 and then decreased to approximately 13.5. In FY 2005/06, the CMD requested funding to re-establish eleven SAD positions, lost in prior years' budget reductions, to provide military instructors in support of four additional classes. As a result, the requested positions were authorized and increased to 21.0 and remained at 21.0 in FY 2006/07.

Table 1 - Authorized Positions

Fiscal Year	Authorized Positions	Filled Positions
2001/02	17.0	19.0
2002/03	30.0	28.3
2003/04	30.0	18.0
2004/05	13.5	13.0
2005/06	21.0	16.0
2006/07	21.0	16.5

## **OBJECTIVE**

*Government Code Section 13400 through Section 13407*, known as the Financial Integrity and State Manager's Accountability Act (FISMA), was enacted by the California Legislature in 1983 to reduce the waste of resources and strengthen accounting and administrative controls. The FISMA charges each state agency with the responsibility of evaluating and reporting on internal controls, which includes a review of processes and activities covering mission objectives, goal attainment, efficient use of agency resources, compliance with applicable laws and regulations, and providing accurate and reliable financial information.

To assist the CMD with FISMA compliance, the MDIRO's general audit objectives will be to review the CMD's state funding used for OMI's personnel and operating expenses and determine if:

- The duties and responsibilities of CMD and OMI are clearly defined.
- Financial operations are conducted as specified in the annual BCP's as approved by the Legislature and in accordance with policies and procedures established in the SAM.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports.
- Assets are safeguarded against loss from unauthorized use or disposition.

## **SCOPE AND METHODOLOGY**

The MDIRO used the following methods to gain an understanding of the YPD's OMI operations and processes, as well as evaluate and test the internal controls over financial activities for the audit period July 1, 2005 through June 30, 2007. The MDIRO performed a walkthrough of the OMI facility, interviewed YPD and OMI management and staff, and reviewed the following:

- Legislation, regulations, and policies;
- MOU between the CMD and OMI;
- OMI's Charter;
- OMI Board of Directors Meeting minutes;
- YPD's CALSTARS and budgetary reports;
- CMD's SAD personnel records;
- Personal services contracts;
- Inventory reports; and
- OMI's reimbursement requests, invoices and payroll records.

All OMI payroll is processed through an outside company; therefore, the MDIRO did not evaluate the reliability and integrity of the OMI's computer-processed personnel data.

The results of the above tests provided a reasonable basis to assess the adequacy of the YPD's compliance with SAM, applicable laws, and regulations.

## ***STATEMENT OF AUDITING STANDARDS***

The MDIRO conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to provide a reasonable basis for our conclusions regarding the program under review. An audit also includes an assessment of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. The MDIRO believes that this audit provides a reasonable basis for our conclusions.

**CALIFORNIA MILITARY DEPARTMENT  
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**Findings and Recommendations**



## AUDIT FINDINGS AND RECOMMENDATIONS

The YPD's management of its internal controls and fiscal activities governing OMI's operations lacked effective and efficient oversight as well as exceeded its authority in properly administering the CMD's funding of the school's operations. There were several areas where controls were either not in place or functioning as intended and where immediate corrective action is necessary.

**Finding 1: The CMD reimbursed OMI over \$1.0 million for unallowable civilian personnel costs and operating expenditures.**

During July 1, 2005 through June 30, 2007, the YPD:

- A. Executed reimbursement contracts through the Comptroller's Office using the budget line item "Consulting and Professional (C&P)" Internal and External, and authorized reimbursement to OMI for **\$738,785.32** (as illustrated in Table 2) to hire civilian personnel in lieu of SAD military cadre, and
- B. Made direct purchases and authorized reimbursement to OMI for **\$300,537.13** in operating expenses deemed inappropriate or in excess of reasonable costs.

The Government Code Section 13401, states in part:

*"...(3) Effective systems of internal accounting and administrative controls are necessary to assure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency...(5)(b)(1). Each state agency must maintain effective systems of internal accounting and administrative control as an integral part of its management practices."*

Government Code Section 19130(b)(1) states:

*"(b) Personal services contracting also shall be permissible when any of the following conditions can be met (1) The services are of such an urgent, temporary, or occasional nature that the delay incumbent in their implementation under civil service would frustrate their very purpose."*

The California State Administrative Manual (SAM), Section 6140 and 6315, states:

*"The Budget Act is the primary source for appropriations...Departments have the primary responsibility to operate within budget levels and to comply with any restrictions or limitations enacted by the Legislature...the general expectation is that state agencies comply with the legislative intent..."*

*"...each department is responsible for preparing its own budget and for carrying out the current level of service or activities as authorized by the Legislature."*

SAM Section 20050 states:

*“... that the elements of a satisfactory system of internal accounting and administrative controls include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures...”*

Military and Veterans Code Section 530, states in part:

*“Such officers (CaCC) shall exercise no authority or command except as military instructor or instructors or professors of military science and tactics of such academy. Such commissions shall be granted and may be revoked by the Adjutant General, under such rules and regulations as he may prescribe.”*

**1-A. Civilian Personnel Hired in Lieu of SAD Personnel - \$738,785.32**

Civilian Teachers and Support Staff

During the September 21, 2005 OMI Board of Directors meeting, the OMI Superintendent reported that the school had “added new coursework/activities for the purpose of improving the educational experience, using an expanded character education program, and to help retain students. Prior to the 2005/06 school year, the OMI Superintendent hired three civilian “character education” teachers. One had teacher credentials from Florida, one was credentialed in California, and one was not credentialed. The OMI Superintendent also hired a character education coordinator, who had a doctoral degree. It should be noted that the California credentialed teacher had been employed with OMI as a Spanish teacher prior to signing the 2005/06 contract to teach the character education curriculum. These civilian instructors, according to the contract’s scope of work, would teach alongside the military cadre as a team. They were also referred to as “academic staff”, in terms of their responsibilities, who would present “formal periods of instruction in accordance with the standards set by the California State Board of Education, etc.”

To fund these civilian positions the CMD and OMI executed reimbursement contracts, and amendments as needed, in FY 2005/06 and 2006/07. In FY 2005/06, the YPD and the Comptroller’s Office approved an Allotment Revision Request to establish a Contract and Professional Services budget line item. *(As stated earlier in this report, the YPD requested funding, in the FY 2005/06 BCP, to re-establish eleven SAD positions for military instructors to support four additional classes.)* In addition to character education instructors, OMI also hired the following administrative and support staff for the same fiscal years plus FY 2007/08:

- One Accounting Clerk;
- One Information Technology Coordinator;
- One Assistant Athletic Director (50% salary reimbursed); and
- One independent contractor serving as a Logistics Coordinator.



The YPD provided the following justification to procure civilian personnel:

"Government Code 19130(b)(10) The funding for the charter school is a joint venture of the City of Oakland and the State of California through the Military Department. The state funding for the school is limited to appropriation each year and was established as a reimbursement not for hiring of State employees. The funding provided by the State changes each year and is temporary in nature. It is in the State's best interest to contract/reimburse the charter school for these services."

However, Government Code 19130(b)(10) states that such contracting is permissible if the services are of such an urgent, temporary, or occasional nature that the delay incumbent in their implementation under civil service would frustrate their very purpose. Therefore, these provisions are not to be applied to expansions of existing programs or displacement of state full time equivalent employees. As a result, the YPD inappropriately used personal services contracts in lieu of hiring full time equivalent, SAD military personnel to perform similar services.

#### California Cadet Corps (CaCC) Instructors

The personnel structure of OMI's military cadre did not appreciably change until the early part of 2007 (FY 2006/07) when OMI hired three civilian employees who wore CaCC uniforms. In the initial visit to OMI in September 2007, the MDIRO saw one of these employees wearing the uniform of the Army National Guard, except that the label next to his name read "California Cadet Corps" instead of "Army" (for the Active National Guard Soldier) or "California" (for the SAD Soldier).

The MDIRO found that the CaCC employees held previous CaCC positions in other high schools prior to employment with OMI. In order to become a CaCC instructor, an individual, preferably with prior military experience, is first nominated by the school administration and, if accepted, commissioned by The Adjutant General in the CaCC. Once the CaCC member is commissioned and hired to teach CaCC classes, the school validates the CaCC hours, forwards the validated time to the YPD, who, after approving the time and attendance, submits the hours to the CMD's State Personnel Office for payment. These hours are typically for time spent teaching the CaCC curriculum in a particular high school or community college, where there are no other military programs on campus.

In a meeting with the YPD on October 4, 2007, the MDIRO learned that the three civilian employees mentioned above were hired as full-time "military" personnel, each with a commission in the CaCC holding the rank of Major. One employee was hired as a Military Consultant to advise and support the military science-related activities, and the other two signed identical employment contracts as Admissions Officers, whose duties included record keeping, marketing, and meeting OMI's enrollment goals. The MDIRO was unable to validate why OMI needed two Admissions Officers.

Based on a review of OMI's past BCPs, the only military personnel approved and funded by the Legislature to teach at OMI were SAD military Soldiers. According to the YPD's June 2007 OMI organization chart (verbally updated with MDIRO in the above meeting), there

were three initial CaCC instructors, which OMI hired in FY 2006/07, with the rank of Major, (pay grade 04). Although it is outside the audit review period, MDIRO found that OMI also hired four additional CaCC instructors in the 2007/08 school year, filling SAD positions. *Only one current SAD position, the commandant, had a 04 pay grade.* During these time frames it would appear that the CMD reimbursed OMI for seven 04 officer pay grade positions, which were designated for SAD E7 and E6, NCO pay grades. In order to fund the salaries and benefits in FY 2006/07 for the three CaCC employees, the CMD and OMI executed a contract amendment to increase the reimbursement for personnel services by \$50,000.00. The current FY 2007/08 reimbursement contract includes the four added CaCC instructors' salaries and benefits.

Table 2 illustrates the total unallowable civilian personnel costs.

**Table 2 – Personnel Contract Reimbursement**

OMI STAFF REIMBURSED	FY 2005/06	FY 2006/07	Total
CHARACTER EDUC. TEACHERS	\$238,616.14	\$241,930.65	\$480,546.79
CACC INSTRUCTORS	0	93,182.97	93,182.97
ACCOUNTING CLERK	33,210.07	43,855.33	77,065.40
IT COORDINATOR	25,233.83	0	25,233.83
ASST. ATHLETIC DIRECTOR	17,756.33	0	17,756.33
LOGISTICS COORDINATOR	22,500.00	22,500.00	45,000.00
<b>TOTAL REIMBURSED TO OMI</b>	<b>\$337,316.37</b>	<b>\$401,468.95</b>	<b>\$738,785.32</b>

*Failure to implement program activities authorized by the Legislature and lack of reliable financial information increases the risk of public scrutiny and jeopardizes the CMD's state funding.*

**Recommendation:** The CMD should recoup \$738,785.32 from the YPD's OMI budget for the unallowable civilian personnel costs claimed and reimbursed.

**Recommendation:** The CMD's YPD should immediately amend the current contract between the CMD and OMI regarding reimbursement of personal services to meet Government Code 19130 requirements for "emergency" services.



**1-B. Unallowable Operating Expenditures - \$300,537.13**

Based upon the funding justification and program intent set forth in the respective BCPs, the \$300,537.13 expenditures and reimbursements are considered unallowable. The YPD does not have a written cost allocation agreement to support those OMI costs charged directly to or reimbursed by the CMD.

Table 3 below illustrates the unallowable expenditures.

**Table 3 – Unallowable General Operating Expenses**

UNALLOWABLE COSTS CATEGORY/ACTIVITY	FY 2005/06 TOTAL UNALLOWABLE AMOUNT	FY 2006/07 TOTAL UNALLOWABLE AMOUNT	TOTAL UNALLOWABLE COSTS
Facilities: Custodial Services & Supplies	\$39,526.78	\$53,196.57	\$92,723.35
Facilities: Utilities	\$49,441.26	\$35,534.12	\$84,975.38
Security Systems	\$1,693.49	0	\$1,693.49
Sports Equip/Supplies	12,298.22	9,977.94	\$22,276.16
Bus Rental	3,846.25	\$532.00	\$4,378.25
Insurance	10,815.00	19,551.79	\$30,366.79
Travel: Air Fare & Car Rental	0	3,413.65	\$3,413.65
Legal Services	12,942.60	9,415.80	\$22,358.40
Independent Auditor's Report	14,000.00	0	\$14,000.00
School District Administration Fee	5,144.00	0	\$5,144.00
Unreimbursed Meals	12,280.42	0	\$12,280.42
IT Maintenance	\$3,431.64	\$3,495.60	\$6,927.24
<b>TOTAL</b>	<b>\$165,419.66</b>	<b>\$135,117.47</b>	<b>\$300,537.13</b>

**Facilities Cleaning Costs, Supplies, and Utility Expenses - \$92,723.35 & \$84,975.38**

The CMD reimbursed OMI \$54,898.31 in FY 2005/06 and \$73,884.12 in FY 2006/07 in professional facilities maintenance costs, which constituted 100 percent of the total custodial services and supplies for the academic school year. According to the FY 2004/05 BCP, the cleaning and maintenance costs were to be reimbursed "in support of the military staff". However, because the FY 2005/06 BCP did not reference facilities costs and the statement above was omitted, the MDIRO relied upon the original intent of the BCP language, which was to have the CMD pay their share of the cleaning and maintenance costs in support of the military staff only. Additionally, the CMD paid \$68,668.42 in FY 2005/06 and \$48,352.94 in FY 2006/07 in utilities costs. In the above cases, the MDIRO accepted and used the YPD's allocation cost factor of 28 percent, as discussed in the auditee's response, and applied it to the facilities custodial services, supplies, and utilities. The net results have been calculated and are reflected in the table above.

The MDIRO did not review the facilities maintenance agreements between OMI and the cleaning company. However, a review of the billings did not reflect any excluded areas, and the bill appeared to include cleaning for the entire school.



***Facilities Security Systems - \$1,693.49***

The CMD reimbursed OMI \$2,352.07 for a security system in the 2005/06 fiscal year. The 2005/06 BCP did not contain a provision for the allocation of facilities costs. However, past practices indicated that it was the responsibility of the City of Oakland, and not the CMD, to provide all other facilities costs, which would include security. Based upon the auditee's response, the MDIRO will allow the 28 per cent cost allocation factor to determine acceptable costs. The above, bolded figure reflects the balance of the security system cost that is unallowable. ( $\$2,352.07 \times 0.28 = \$658.58$ ) ( $\$2,352.07 - \$658.58 = \$1,693.49$ )

***Sports Equipment, Supplies and Related Costs – \$22,276.16***

The CMD either reimbursed or paid directly to OMI a total of \$12,298.22 for FY 2005/06 and \$9,977.94 for FY 2006/07 in sports equipment and related costs. This included: volleyball, basketball, and soccer uniforms, athletic sports jackets, sports-night awards, a golf instructor's training camp, and fencing instruction, which did not appear to be approved expenditures outlined in the YPD's BCP for OMI.

According to the BCPs, the cadets would receive physical education in terms of personal wellness, physical training, diet, and nutrition. The physical fitness training included intramural sports and is addressed in OMI's charter as an extracurricular class under the Academic Excellence section. Although the BCPs do not specify that the military cadre is responsible for the physical training of the cadets, it is implied and expected that the cadre are the primary instructors for the cadets' physical fitness and health.

***Bus Rental - \$4,378.25***

The CMD reimbursed OMI \$3,846.25 in FY 2005/06 and \$2,004.50 in FY 2006/07 for bus rental expenses to transport the cadets to interscholastic athletic events, a baseball sport event, and two science museums. It was originally determined that these events were considered academic field trips and not related to the funding requirements of the YPD's BCP. Based on the YPD's response, the MDIRO accepts the bus rental expense of \$1,472.50 for the sporting event in which the OMI cadets participated in the Oakland Athletics opening ceremonies. The unallowable costs for the bus rental expenses have, therefore been reduced to \$4,378.25.

***Insurance Premiums - \$30,366.79***

The CMD reimbursed OMI \$10,815.00 in FY 2005/06 and \$19,551.79 in FY 2006/07 for insurance premiums classified as an "umbrella and business owner's policy". In the original MOU between the CMD and the co-founder of OMI, the Mayor, it stated that, as a newly formed corporation, each party would provide a "liability insurance policy that covers the Department (CMD) and the Mayor for any exposure they may have in operating the school."

The YPD pays insurance premiums in its budget, which allocates a portion of the premiums to OMI's budget code. This expense includes Group Accidental Death and general liability insurance (one premium bill was for an "excess" liability program). The YPD charged the



OMI budget code \$4,312.56 in FY 2005/06 and \$2,000.00 in FY 2006/07 for OMI's share of the premiums. It should be noted that the State of California is self-insured; however, the MDIRO did not review any of the policies either at OMI or the YPD to determine the extent of coverage, and whether the CMD was paying for duplicate coverage.

***Travel - Air Travel and Car Rental - \$3,413.65***

██████████ who was reportedly serving as a consultant to OMI's Superintendent, was reimbursed \$3,413.65 for air travel and car rental from the YPD budget in FY 2006/07. Based on discussions with the YPD and OMI, the MDIRO understood that ██████████, who was apparently under contract with another school district, had been working for OMI as a consultant. A review of OMI'S Board of Directors' minutes dated September 11, 2006 and March 26, 2007 indicated that ██████████ was being considered for, if not acting as, OMI's next Commandant. However, reimbursement for these travel expenses did not appear to be justified or supported by the BCP in place for funding OMI operations, nor did the CMD enter into any agreement with ██████████ to reimburse ██████████ for travel expenses while working as the OMI Superintendent's consultant.

***Legal Services - \$22,358.40***

In a review of the legal services fees and billable hours, the CMD reimbursed OMI \$12,942.60 in FY 2005/06 and \$9,415.80 in FY 2006/07 for attorney fees involving student discipline issues that may or may not have resulted in litigation activities. As specified in OMI's charter, student discipline policy falls under the umbrella of the school administration.

***Independent Financial Audit - \$14,000.00***

In FY 2005/06, the CMD reimbursed OMI \$14,000 for an independent audit firm to prepare the Office of Management and Budget (OMB) Circular A -133 report to comply with the reporting requirements of the Department of Education and Charter Schools. Charter schools must submit a copy of the OMB Circular A -133 report to the chartering authority, in this case the Oakland Unified School District, the County Office of Education, the State Controller, and the California Department of Education by December 15th of each year. This is an expense of the OMI school administration and not the CMD.

***School District Administrative Charges - \$5,144.00***

In FY 2005/06, the CMD reimbursed OMI \$5,144.00 for a 1% Administrative Fee, which the OUSD assesses charter schools for administrative monitoring and oversight activities performed by the school district. Based upon a conversation with the OMI Business Manager, it appears that the YPD verbally approved reimbursement for this fee. This is an expense of the OMI school administration and not the CMD.

***Unreimbursed Meals - \$12,280.42***

In FY 2005/06 the CMD's YPD authorized and reimbursed OMI \$12,280.42 for excess student meal expenses that were not reimbursed by other state or federal program



resources. This expense was a result of OMI overestimating the number of meals served to the cadets on a monthly basis. Any excess costs over the funding received resulted in an expense to OMI, which was submitted to the CMD for reimbursement. The CMD budget does not include reimbursing OMI for the cadets' daily meal costs.

***IT Maintenance - \$6,927.24***

The CMD reimbursed OMI \$4,766.17 in FY 2005/06 and \$4,855.00 in FY 2006/07 for IT technicians and maintenance services. The MDIRO found time-sheets and invoices related to Kelly Temporary Services to pay for IT technicians working at OMI. In addition, there was an invoice for work performed at OMI to configure and install a computer server and clients. Based upon the auditee's response, the MDIRO will allow the 28 per cent cost allocation factor to determine the reasonable share of CMD IT expenses, which is \$6,927.24.  $(\$4,766.17 + \$4,855.00 = \$9,621.17 \times .280 = \$2,693.93)$   $(\$9,621.17 - \$2,693.93 = \$6,927.24)$

*A weak control environment increases the risk of inappropriate transactions, fraud, and waste, and may result in a loss of CMD's state funding. Also, failure to adequately document and maintain current practices policies, and procedures increase the risk of inconsistencies and errors, and unreliable financial information.*

***Recommendation:*** The CMD should recover \$300,537.13 from the YPD's OMI budget for the unallowable operating expenses.

***Recommendation:*** The CMD's YPD and CMD executive staff should also review BCP language regarding the intent and nature of the operating expense categories and modify the budget line item names to reflect realistic budget categories and amounts. Provide a narrower definition of those costs and consider limitations, exclusions or other restrictions as necessary to clearly define the CMD's obligations. Include a provision in the BCP language that the funding is not only limited to availability but subject to CMD approval as necessary.

***Recommendation:*** Immediately develop and implement a written cost allocation agreement between the CMD and OMI documenting the YPD's realistic and equitable share of OMI's operating expenses, based upon the approved funding in the most current BCP.

***Recommendation:*** The YPD and CMD executive staff should review and revise the current reimbursement contract between the CMD and OMI to ensure CMD pays its equitable share of operating expenditures as determined in the above recommendation.

***Recommendation:*** The YPD should review and report on the insurance coverage necessary among all of the insurance policies in effect regarding OMI, and determine whether the CMD is paying for duplicate coverage by reimbursing OMI for liability insurance premiums.



***Finding 2: There is no current Memorandum of Understanding (MOU) between the CMD and OMI.***

The CMD's YPD did not have a current MOU, or any other agreement, with the OMI. The previous MOU expired on June 30, 2001. Although this MOU has expired, the CMD's YPD proposed to amend it to formally recognize the relationship.

SAM 20050, states in part:

*"...Entity heads and managers should identify and make the necessary corrections when warned by any of the danger signals listed...lines of organizational authority and responsibility are not clearly articulated or are nonexistent..."*

*Good Business practices require that legitimate, specific and written agreed-upon responsibilities and identification of expectations between two parties to ensure smooth operations and promote efficiency.*

***Recommendation:*** To ensure that CMD and OMI have a complete understanding and agreement regarding the roles and functions of the military presence at the academy, an MOU should be finalized and implemented immediately.

***Finding 3: The YPD approved payment for OMI reimbursement billings without reviewing for mathematical accuracy and supporting documentation (vendor receipts, invoices, and/or statements).***

The YPD did not have procedures in place and did not exercise proper management oversight to ensure that OMI reimbursement billings were reviewed for mathematical accuracy and properly supported.

Government Code 13403, states in part:

*“...the elements of a satisfactory system of internal accounting and administrative controls, shall include, but not limited to:...A system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures..”*

*Failure to review billings for mathematical accuracy and supporting documentation increases the risk of fraud, violations of appropriations, and mismanagement of funds.*

**Recommendation:** The YPD should immediately implement internal controls to review all reimbursement documents for mathematical accuracy as well as support documentation (invoices, statements, and invoices) prior to approving payment. Additionally, the YPD should develop a policies and procedures manual for reviewing and paying reimbursement contract invoices. The manual should include the process of tracing claimed expenditures to supporting invoices, cancelled checks and bank statements.

***Finding 4: The CMD may have made duplicate payments to a CACC member.***

During May 2007, the CMD reimbursed OMI for one of the CaCC instructor's salary and benefits through the contract reimbursement process, during which time this instructor received separate pay for CaCC hours performed on May 10 and 11, 2007 (Thursday and Friday). It should be noted that based on time constraints, MDIRO staff was unable to perform an analysis to determine if the CaCC instructor may have used personal leave time in lieu of OMI salary to perform the CaCC hours.

***Recommendation:*** The YPD should investigate the possible duplicate payment to the CaCC member and advise the CMD management when and how the issue is resolved.



***Finding 5: The YPD is not exercising sufficient controls over computer equipment purchased with state funds.***

Based on a walk-through and test of inventory items, the MDIRO found that controls were not in place to adequately safeguard physical inventory as an integral part of the YPD's overall internal control structure.

Laptop computers were located in non-program related classrooms (i.e. art, special education, trigonometry, etc.) and numerous outdated computers were found in a storage room awaiting disposal. Additionally, several laptop computers purchased in calendar year 2006 were found scattered on counters and shelves and not properly safeguarded within OMI's Information Technology Office.

SAM Section 6000 and Section 8640, states:

*"...The combination of accurate accounting records and strong internal controls must be in place to protect against and detect the unauthorized use of state property."*

*"...Property listed on approved STD. 152 will be disposed of without delay, and items held in the suspense file more than 30 days will be reviewed by an agency official to determine why the disposition has not been completed..."*

*The lack of accountability for State assets increases the risk of fraud, waste, and misuse.*

***Recommendation:*** The YPD should implement procedures to ensure that computer equipment is properly stored, disposed of, and access restricted to military cadre program personnel and authorized users.



**CALIFORNIA MILITARY DEPARTMENT  
MILITARY DEPARTMENT INTERNAL REVIEW OFFICE  
AUDIT OF YOUTH PROGRAMS - OAKLAND MILITARY INSTITUTE**

**UNALLOWABLE COSTS SUMMARY**

<b>UNALLOWED COSTS CATEGORY</b>	<b>DRAFT REPORT UNALLOWED COST</b>	<b>ADJUSTMENTS (ALLOWED COSTS)</b>	<b>FINAL REPORT UNALLOWED COSTS</b>
<b>PERSONNEL COSTS:</b>			
Civilian Personnel Hired in Lieu of SAD	\$ 738,785.32	\$ -	\$ 738,785.32
<b>TOTAL</b>	<b>\$ 738,785.32</b>	<b>\$ -</b>	<b>\$ 738,785.32</b>
<b>OPERATING COSTS:</b>			
Facilities (Cleaning, Maintenance, Utilities)	\$ 246,803.79	\$ (69,105.06)	\$ 177,698.73
Security	\$ 2,352.07	\$ (658.58)	\$ 1,693.49
Sports Equipment	\$ 22,276.16	\$ -	\$ 22,276.16
Bus Rental	\$ 5,850.75	\$ (1,472.50)	\$ 4,378.25
Insurance Premiums	\$ 30,366.79	\$ -	\$ 30,366.79
Travel: Air Fare and Car Rental Expenses	\$ 3,413.65	\$ -	\$ 3,413.65
Legal Services	\$ 22,358.40	\$ -	\$ 22,358.40
Independent Auditor's Report	\$ 14,000.00	\$ -	\$ 14,000.00
School District Administration Fee	\$ 5,144.00	\$ -	\$ 5,144.00
Unreimbursed Meals	\$ 12,280.42	\$ -	\$ 12,280.42
IT Maintenance	\$ 9,621.17	\$ (2,693.93)	\$ 6,927.24
Uniforms (Cleaning)	\$ 882.00	\$ (882.00)	\$ -
<b>TOTAL</b>	<b>\$ 375,349.20</b>	<b>\$ (74,812.07)</b>	<b>\$ 300,537.13</b>
<b>TOTAL AMOUNT</b>	<b>\$ 1,114,134.52</b>	<b>\$ (74,812.07)</b>	<b>\$ 1,039,322.45</b>